WESTFORT PETROLEUMS LTD

ANNUAL REPORT 1980

CORPORATE SUMMARY

DIRECTORS

Paul T. Conroy, Calgary, Alberta
Alan D. Fraser, Calgary, Alberta
John A. McAskill, Vancouver, B.C.
J. Denis Mote, Montreal, Quebec.

OFFICERS

Alan D. Fraser - President
James W. Owen - Secretary-Treasurer

BANKER

The Royal Bank of Canada
6th Avenue and 5th Street S.W. Branch
Calgary, Alberta

AUDITORS

Thorne, Riddell & Co.
Calgary, Alberta

COUNSEL

DuMoulin, Black, Brazier & Hall
Vancouver, British Columbia

Jones & Company
Calgary, Alberta

TRANSFER AGENT

Yorkshire Trust Company
Vancouver, British Columbia and Calgary, Alberta

Canada Permanent Trust Company
Toronto, Ontario

HEAD OFFICE

#801, 805 - 8th Avenue S.W.
Calgary, Alberta. T2P 1H7 Canada
Telephone: (403) 265-5960

CAPITALIZATION

Authorized: 10,000,000 common shares of no par value
Issued: 2,052,502 shares

STOCK EXCHANGE LISTING

Vancouver Stock Exchange - Vancouver, B.C. (Symbol - WETV)
NASDAQ (Symbol - WSFPFQ)

PRESIDENT'S REPORT

Westfort was extremely active during the year ending March 31, 1980, as the Company participated in several new ventures and continued to expand its position in existing projects by development drilling and land acquisition. The Company maintained its policy of investing entirely within the United States where current pricing and royalty structure yields to Westfort a 300% higher net return on production than would be realized in Canada.

The Company's financial position strengthened during the year as production revenue increased from $6,000 in 1979 to $146,000 in 1980 and the Company's book asset value grew from $3,200,000 to $8,727,000, a 172% increase. Significant increases in production revenue are anticipated as additional wells are placed on stream this year.

A gas purchase agreement with Columbia Gas Transmission Corporation covering the Bowdertown area in Pennsylvania has been signed on behalf of Westfort and partners. This contract, which evolved after extensive negotiations, includes an important take or pay provision, and guarantees the highest gas prices allowed by the N.G.P.A.* and F.E.R.C.** The take or pay provision tends to stabilize cash flow throughout the year, offsetting the fluctuating effect of peak load production in winter and curtailment or shut-down during summer. The guarantee of maximum allowable N.G.P.A. and F.E.R.C. pricing will yield to Westfort and partners an initial base price of $2.28 U.S./MCF with annual escalation equal to inflation. Gas from this area is potentially eligible for a 50% increase in price under "high cost" gas classification if sanctioned by the regulatory authorities, which seems probable. Other favourable economic factors include the recovery of a portion of gathering costs from the rate base, and secondly, a price increase of approximately 20% for low productivity wells classified as "stripper production", which in most cases would pertain only during the later stages of decline.

Columbia will take delivery of Bowdertown gas at its recently constructed compressor station which is centrally located with respect to our lands. Westfort and partners now have 40 completed gas wells in the Bowdertown area. A gathering system to transport gas from the wells to the compressor is currently under construction. A September 1980 completion date is anticipated for the first phase of the gathering system which will permit tie-in of an initial 20 wells. The remaining 20 wells will be hooked up as rapidly as feasible and the availability of immediate market outlet will justify an accelerated development drilling program at Bowdertown.

Since year end Westfort has acquired an interest in two additional large gas prospects in the United States. The Neel prospect in West Virginia, comprising 17,000 acres is adjacent and geologically similar to the Burns Chapel gas field. The McGee Valley prospect in Southeastern Oklahoma involves 107,900 gross acres and multiple potential pay zones to a depth of 9,300 feet.

Prospects from all petroleum producing regions of the southern, mid-western and western United States, as well as new opportunities in the Appalachian basin, are evaluated on a continuous basis by Westfort's technical staff, to provide the Company with high-graded new areas of investment.

Mr. Denis Mote, an oil analyst based in Eastern Canada, was appointed to Westfort's Board of Directors on December 18, 1979. I welcome Mr. Mote to the Board and greatly appreciate his contribution to the direction of the Company. On February 15, 1980, Mr. Hubert Gray resigned from the Board to pursue other business opportunities. I wish to thank Mr. Gray for his valuable assistance during his term which dates from inception of the Company.

Westfort increased its staff from 2 to 6 by the addition of highly qualified personnel in the disciplines of engineering, geology, land administration and finance. The Company is now adequately staffed to manage its expanded volume of business and anticipated acceleration of activity.

I would like to thank the shareholders for their support, and also to express my appreciation to the staff of Westfort whose efforts have given the Company another successful year and a strong base for continued growth.

ON BEHALF OF THE BOARD OF DIRECTORS

Alan D. Fraser

Alan D. Fraser
President

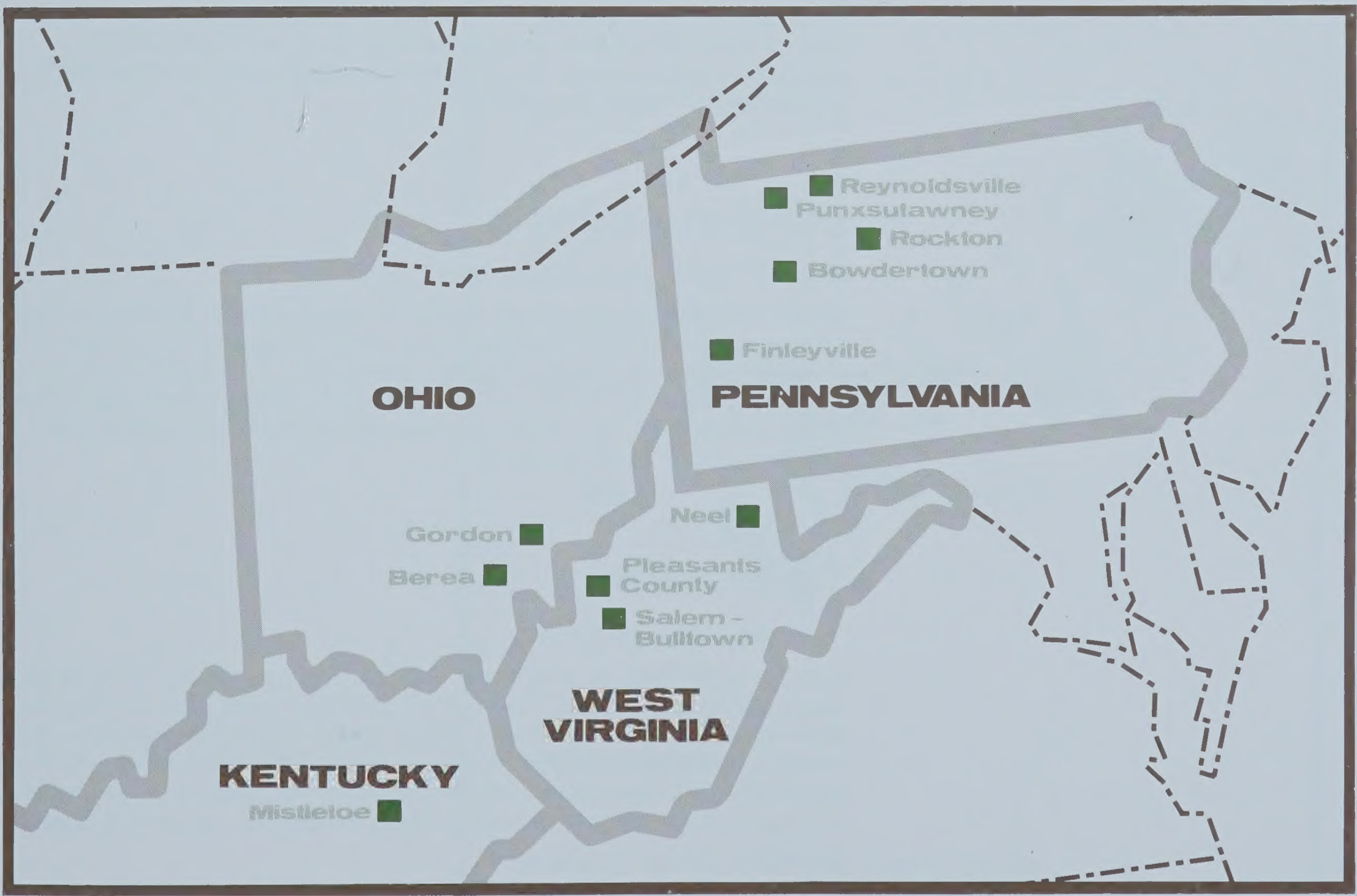
* Natural Gas Policy Act
** Federal Energy Regulatory Commission

OPERATIONAL REVIEW

Westfort's principal area of operation again was the Appalachian Basin of the eastern United States where development drilling continued, additional lands were acquired on established projects and new prospects were added. In the mid-western and southern U.S., numerous prospects were reviewed, with the emphasis on oil plays. The Company selected two small prospects in northeastern Oklahoma which will be drilled in 1980. Other attractive prospects are now under consideration which will probably lead to further participation by the Company in these areas.

During the past year the Company participated in 66 wells which resulted in 11 gas wells, 2 oil wells, 38 gas and oil wells and 6 abandonments. The remaining 9 wells are still undergoing completion and testing.

A brief summary of the Company's more active areas follows:



APPALACHIAN BASIN PROJECTS

PENNSYLVANIA

Bowdertown / Patchinville

40% Working Interest (W.I.) - 12,500 gross acres

Westfort exercised its option on additional lands in this project to increase gross acreage from 6,000 to 12,500 acres. The Company acquired a 41.66% W.I. in the Patchinville project which is in the same general area as Bowdertown. Westfort now has an average 40% W.I. in 44 gas wells drilled in this combined program. Additional development drilling will commence as soon as justified by market outlet provided by the gathering system which is currently under construction.

As mentioned in the President's Report, the gas reserves on this prospect are under contract to Columbia Gas and 40 of the 44 gas wells will be put on stream this fall. The Columbia contract pertains only to wells in Indiana County. National Fuel has first call on production in Clearfield County (Patchinville project), and contract terms are now under negotiation.

Punxsutawney

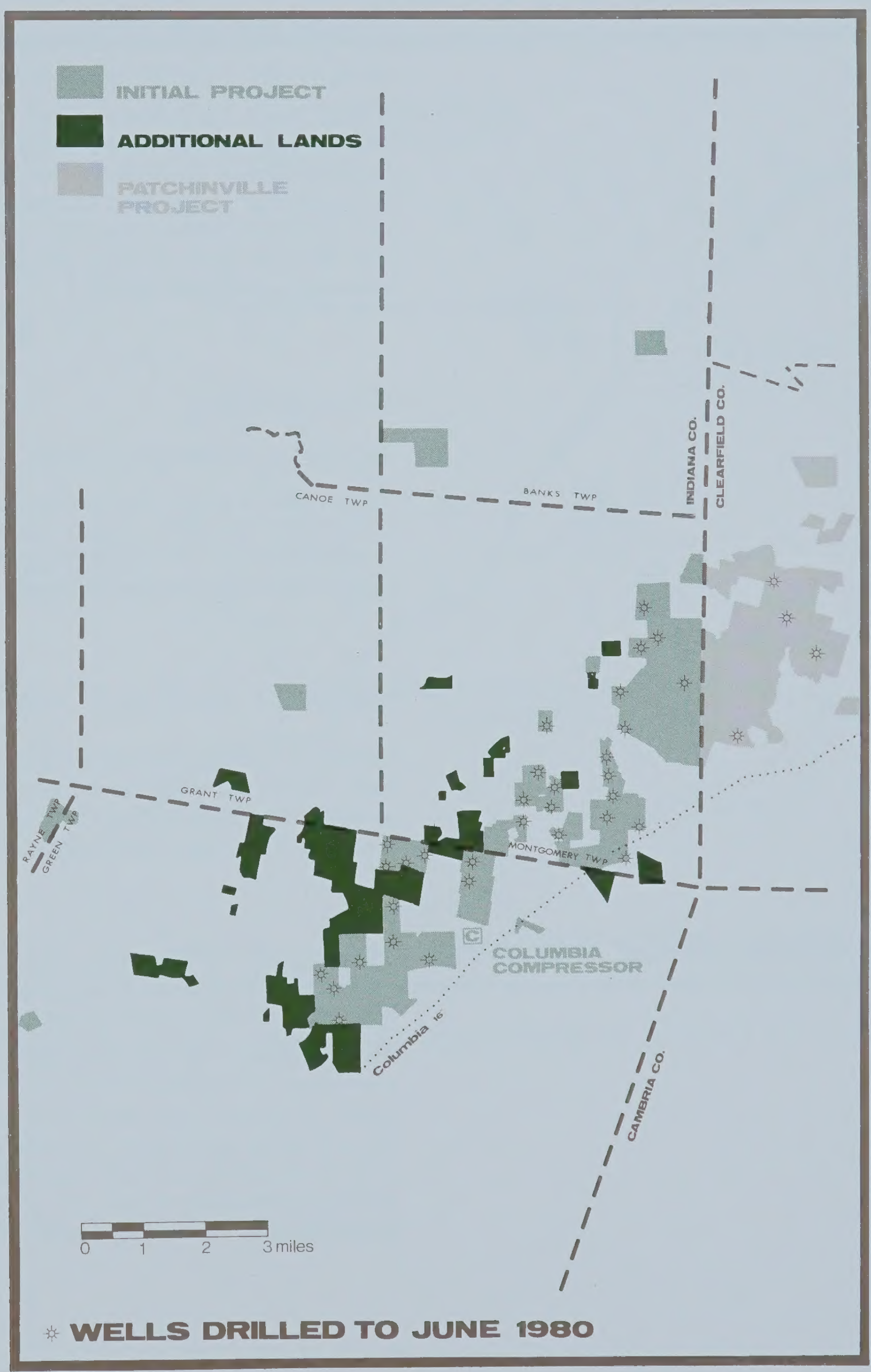
25% W.I. - 850 gross acres

Westfort currently has 12 gas wells on stream which are producing an average of 60 MCF/day. Remedial work is required on several of these wells which should increase production. This gas is sold to Consolidated at $2.28 U.S./MCF. Additional drilling in the near future is not anticipated, but expansion will be considered if justified by performance of existing wells.

Finleyville

25% W.I. - 660 gross acres

The Company has an interest in 2 producing gas wells and 2 oil and gas wells in this project. The two oil and gas wells have undergone extensive testing to determine which zones are producing oil so that present operational problems can be eliminated. Workovers which are planned in the near future should increase the present oil production. All four wells require workover to bring production up to indicated potential.



BOWDERTOWN PROJECT

Reynoldsville

41.66% W.I. - 14,500 gross acres

Eleven wells have been drilled to date resulting in ten gas wells and one abandonment. Three wells have recently been placed on stream to determine if extended flow periods will result in a "cleaning up" of the reservoir sands and increased productivity which has been the experience of other operators in this area. Potential of this large area can then be more reliably assessed, and the proper course of development determined.

Rockton

10% W.I. - 13,600 gross acres

Seven gas wells in Pennsylvania are currently producing an average of 50 MCF/day. This project also includes a 3 well drilling commitment on the 12,000 acre Mistletoe lease in Kentucky, which is primarily an oil prospect. These wells will be drilled in 1980.

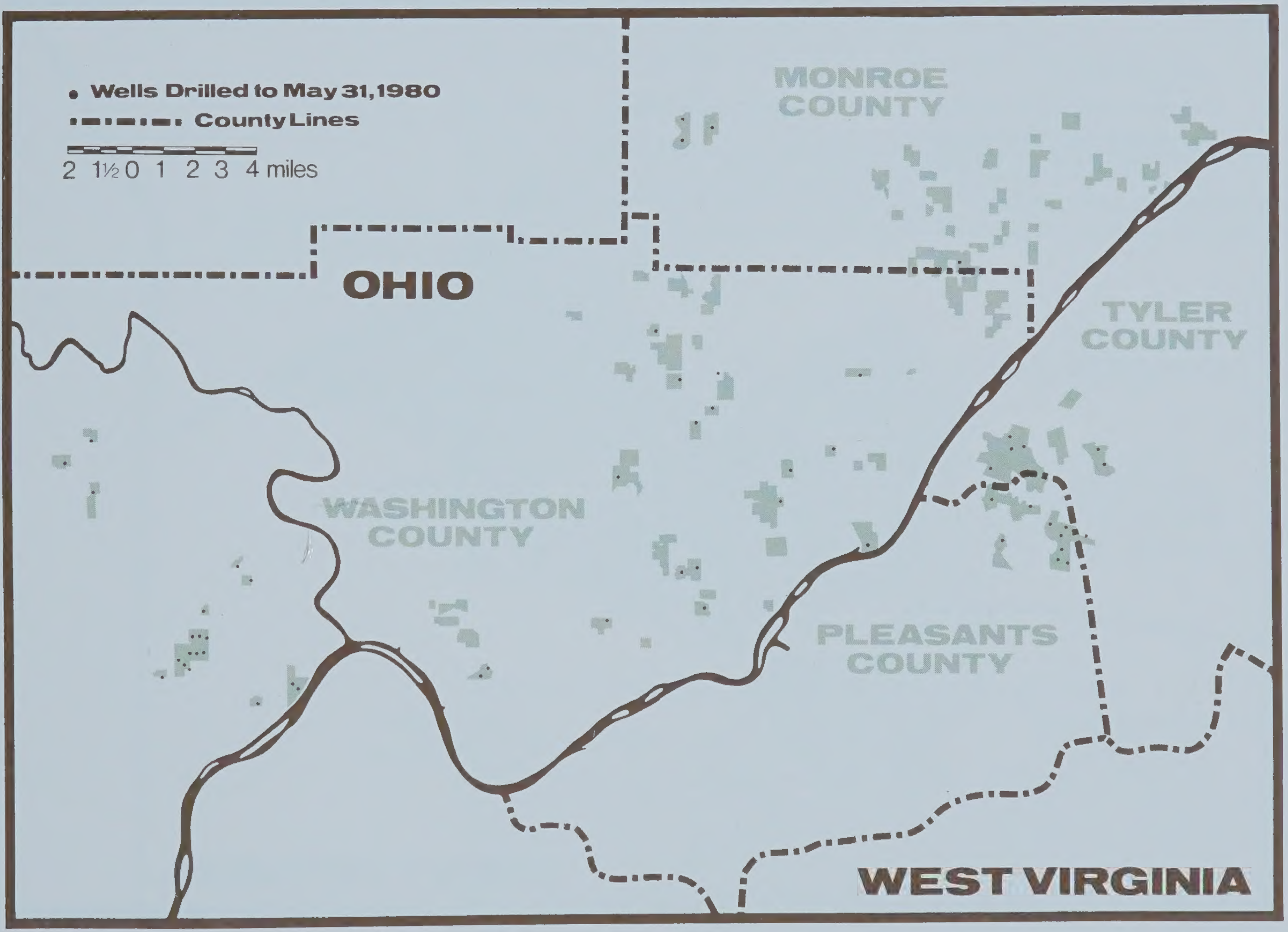
OHIO / WEST VIRGINIA

Westfort has an interest in four separate oil and gas projects in this area where 60 wells have been drilled to date. The average well depth is 2,000 to 2,500 feet in Ohio and 2,500 to 3,000 feet in West Virginia. The major objective sands are the Berea, Gordon and Weir.

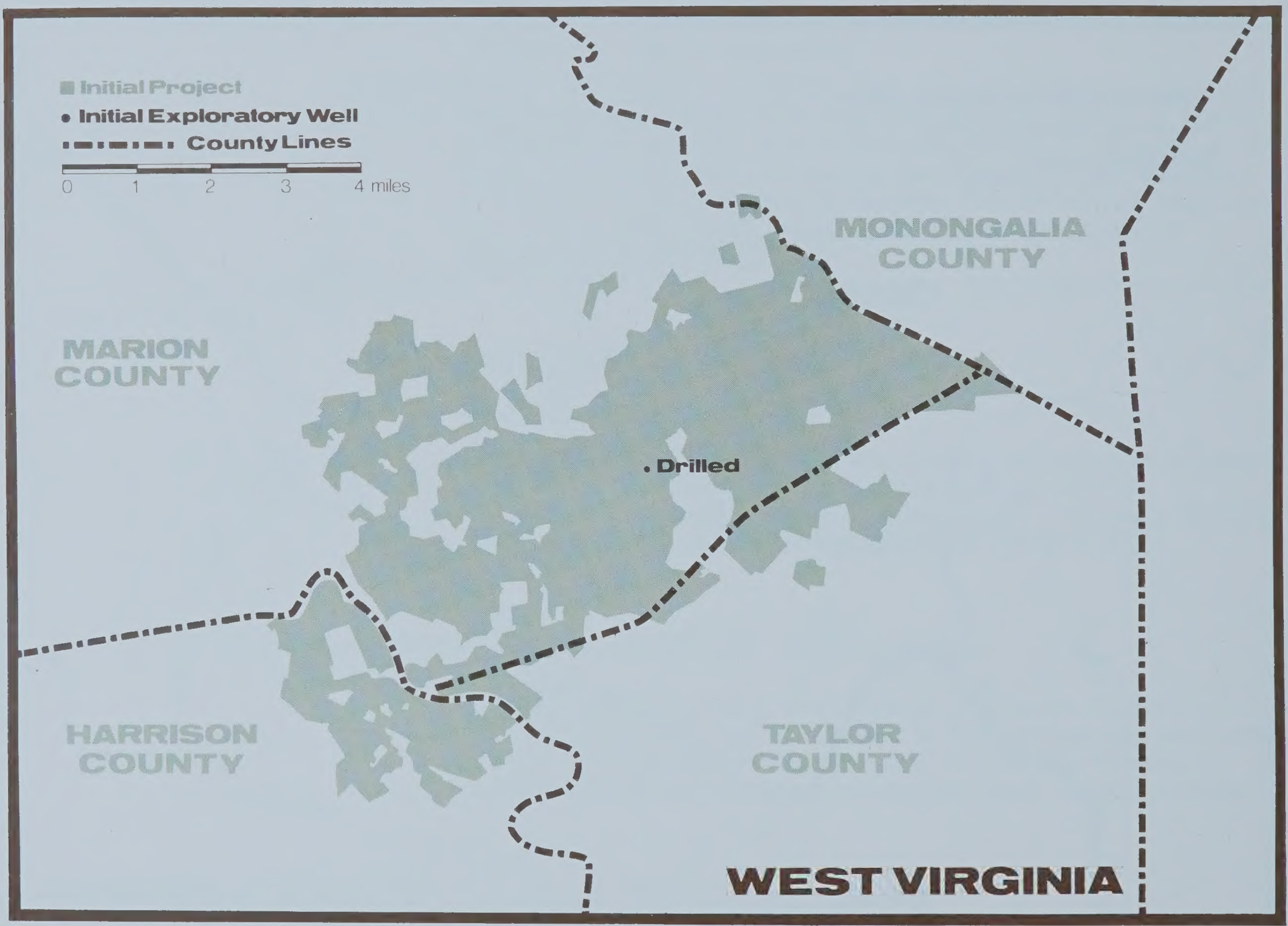
Berea Project, Ohio

10% W.I. - 1,200 gross acres

The Company has participated in the drilling of 14 wells and the purchase of 9 wells in this area. This program has resulted in 10 gas wells, 12 oil and gas wells and one abandonment. Seventeen wells are currently on stream. Current prices are Cdn. $2.30 to $2.90/MCF and oil is selling for Cdn. $44.00/bbl. Average daily production rates are approximately 5 bbls. of oil and 50 MCF/day, however improvement is expected with the installation of new pumps.



EAST OHIO and WEST VIRGINIA PROJECT



NEEL PROSPECT

OPERATIONAL REVIEW

[illegible]
Pleasants County, West Virginia

10% W.I. – 17,425 gross acres

To date, Westfort has participated in the drilling of 36 wells resulting in 3 gas wells and 25 oil and gas wells. At present 7 wells are on production and the remainder will be put on stream when gas meters are installed. The average well in this project should produce 10 bbls. and 100 MCF per day.

[illegible], West Virginia

16% W.I. – 1,204 gross acres

The first well in this project has been completed as a potential Oriskany gas well. Initial test results were extremely encouraging although water problems have now forced a workover of the lower sections. An additional well on the prospect is planned if results of the workover are positive.

[illegible] Prospect, West Virginia

20% W.I. – 17,000 gross acres

Westfort has a 20% working interest in this 17,000 acre prospect located in Marion County, West Virginia. The prospect is controlled by seismic and is on trend with the Burns Chapel gas fields. Westfort is committed to drill five wells within the next three years which will earn a 10% interest in the remaining undrilled acreage and also in two existing gas wells located on the farmout leases.

OKLAHOMA

McGee Valley

.63% to 2.195% W.I. - 107,900 gross acres

The Company has recently acquired an interest in a large gas play in the Counties of Pushmataha, Pittsburgh and Atoka in Southeastern Oklahoma. The interest in the three blocks of land ranges from .625% to 2.195% in a total of 107,900 gross acres.

Evaluation of these lands by drilling, and by re-entry of existing wells, is now being conducted by two separate project operators. This evaluation work also constitutes the earning commitment, however Westfort is carried at no cost on the first 5 wells. The initial 2 wells are currently at T.D., cased, and completion procedures are in progress. The success of the program will depend largely upon the effectiveness of the Kiel frac to stimulate the low permeability reservoirs.

ADDITIONAL SOUTHERN U.S. PROPERTIES

Westfort participated in 7 additional prospects over the past 2 years in the States of Texas, Louisiana and Oklahoma. None of these prospects have resulted in significant cash flow from the initial drilling or re-entry operations but only one has been proven negative. The other six prospects still have oil or gas potential. Three of these would require further drilling at a more favourable location on the acreage now earned. Wells on the remaining 3 prospects are beset by completion problems and will require reworking or perhaps re-drilling. Disposition of the majority of these properties will probably be by farmout.

LAND INVENTORY

	% W.I.	Gross Acreage	Net Acreage
CANADIAN PROPERTY			
Sunchild, Alberta	4.52	4,960	225
U.S.A. PROPERTIES			
Pennsylvania			
Bowdertown-Patchinville	40	12,500	5,000
Finleyville	25	660	165
Punxsutawney	25	850	210
Reynoldsville	41.6	14,500	6,030
Rockton	10	13,595	1,360
Ohio			
Berea	10	1,200	120
Gordon	10	11,425	1,140
West Virginia			
Pleasants County	10	6,000	600
Salem-Bulltown	16	1,200	190
Neel Prospect	20	17,000	3,400
Louisiana			
Iberia	23	105	25
Oklahoma			
Southeast Prague	33.3	1,520	505
McGee Valley	.625 - 2.2	107,900	1,035
Texas			
N.E. Beasley	10	200	20
San Manuel	20	320	65
Kyle	5	1,320	65
		195,255	20,155

FINANCIAL REVIEW

The year ended March 31, 1980, was another remarkable year for the Company as the financial position strengthened with a large equity issue. The asset base increased by 172% to $8,727,000 and production revenue grew from $6,000 in 1979 to $146,000 in 1980. Production revenue will increase steadily over the next year as additional wells are put on production and the full effect of the Company's initial discoveries are reflected in the earnings statement.

During the year the Company spent $3,241,000 on exploration and development activities, again concentrating on the development projects in the Appalachian Basin. The Company's activities were financed by interim bank loans, which have now been reduced by proceeds from a 300,000 share private placement. This transaction, which is reflected in the financial statements, netted the Company $2,425,500.

Although the Company's production revenue increased substantially, this was overshadowed by high bank interest costs incurred prior to the equity issue.

Effective April 1, 1979, the Company retroactively adopted the full cost method of accounting which is more widely accepted in the oil industry. As a result of this change, discussed in Note 2 to the Financial Statements, the deficit at April 1, 1979, was reduced by $810,000. The loss for March 31, 1980, would have increased by $233,598 if the former accounting policy had been applied.

For 1980 and following years Westfort will continue its present growth rate as a result of increased cash flow from additional development wells and the ability to finance operations with long term bank loans.

AUDITORS' REPORT

To the Shareholders of Westfort Petroleums Ltd.

We have examined the consolidated balance sheet of Westfort Petroleums Ltd. as at March 31, 1980 and the consolidated statements of loss and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at March 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in the method of accounting for oil and gas properties described in note 2 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Calgary, Alberta
June 13, 1980

Thorne Riddell & Co.
Chartered Accountants

FINANCIAL

WESTPORT PETROLEUMS LTD
[illegible]
CONSOLIDATED BALANCE SHEET AS AT MARCH [illegible]

	1980	1979 (note 2)
Assets		
CURRENT ASSETS		
Share subscriptions receivable	$2,425,500	$ —
Accounts receivable	116,154	88,836
Drilling incentive credit receivable	18,989	18,989
Drilling advances	16,317	164,928
	2,576,960	272,753
PROPERTIES AND EQUIPMENT (note 3)	6,150,465	2,934,963
	$8,727,425	$3,207,716
Liabilities		
CURRENT LIABILITIES		
Bank indebtedness (note 4)	$3,263,964	$ 16,050
Accounts payable	561,337	320,267
Promissory note	—	80,027
	3,825,301	416,344
Shareholders' Equity		
CAPITAL STOCK (note 5)		
Authorized		
10,000,000 Shares without par value		
Issued and to be issued		
2,052,502 Shares (1,752,502 Shares in 1979)	5,383,161	2,957,661
DEFICIT	(481,037)	(166,289)
	4,902,124	2,791,372
	$8,727,425	$3,207,716

Approved by the Board

Director

Director

WESTFORT PETROLEUMS LTD
CONSOLIDATED STATEMENT OF LOSS AND DEFICIT
YEAR ENDED MARCH 31st, 1980

	1980	1979 (note 2)
Revenue		
Oil and gas production	$146,423	$ 5,811
Interest income	22,247	4,858
	168,670	10,669
Costs and expenses		
Operating costs	22,640	392
General and administrative	91,893	60,345
Interest	343,306	71,447
Mining properties written-off	—	28,624
Depreciation and depletion	25,579	4,401
	483,418	165,209
LOSS FOR THE YEAR	314,748	154,540
DEFICIT AT BEGINNING OF YEAR as restated, note 2	166,289	11,749
DEFICIT AT END OF YEAR	$481,037	$166,289
LOSS PER SHARE	$0.18	$0.12

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION YEAR ENDED MARCH 31st, 1980

	1980	1979 (note 2)
WORKING CAPITAL DERIVED FROM		
Advances for share purchase	$ —	$ 52,000
Issue of shares	2,425,500	2,869,223
	2,425,500	2,921,223
WORKING CAPITAL APPLIED TO		
Operations	289,169	121,515
Properties and equipment	3,241,081	2,926,118
Conversion of advances to shares	—	207,000
	3,530,250	3,254,633
DECREASE IN WORKING CAPITAL POSITION	1,104,750	333,410
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF YEAR	(143,591)	189,819
WORKING CAPITAL DEFICIENCY AT END OF YEAR	$(1,248,341)	$ (143,591)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED MARCH 31st, 1980

1. Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned United States subsidiary, Westfort Petroleums, Inc.

(b) Properties and Equipment

The Company follows the full cost method of accounting for petroleum and natural gas properties whereby all costs of exploration for and development of petroleum and natural gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical expenses, lease rentals on undeveloped properties, costs of drilling both productive and non-productive wells and all technical and administrative overhead directly related to exploration and development activities. Costs are depleted using the unit of production method based upon estimated proven developed reserves of the Company as determined by the Company and substantiated periodically by independent professional engineers.

(c) Depreciation

Depreciation of petroleum and natural gas production equipment is provided on the unit of production method based on estimated proven developed reserves.

Depreciation of other equipment is provided on the declining balance basis using the annual rate of 20%.

(d) Joint Ventures

The Company's exploration and development activities related to petroleum and natural gas are conducted jointly with others and, accordingly, the accounts reflect only the Company's proportionate interest in such activities.

2. Change In Accounting Policy

During the year the Company retroactively adopted the full cost method of accounting described above. As a result, the previously reported deficit at March 31, 1979 of $976,352 has been restated to show a retroactive decrease of $810,063. Accordingly, petroleum and natural gas leases and rights, including exploration, development and equipment thereon as at March 31, 1979 was increased by $810,063. Of the $810,063, $797,275 ($.60 per share) is applicable to 1979 and has been included in earnings for that year. The remaining $12,788 is applicable to the period prior to April 1, 1979, and had the effect of decreasing the deficit previously reported at that date of $24,537. Had the Company followed its previous accounting policy, the loss reported for 1980 would have increased by $233,598. ($.13 per share).

3. Properties and Equipment

	1980			1979
	Cost	Accumulated Depreciation and Depletion	Net	Net
Petroleum and natural gas leases and rights, including exploration, development and equipment thereon . . .	$6,142,090	$19,119	$6,122,971	$2,919,015
Other equipment	38,355	10,861	27,494	15,948
	$6,180,445	$29,980	$6,150,465	$2,934,963

4. Bank Indebtedness

Bank indebtedness is secured by accounts receivable and certain petroleum and natural gas properties.

5. Capital Stock

(a) Issued

During the year ended March 31, 1980, the Company issued 300,000 shares for $2,425,500 cash (net of $49,500 commissions). Subsequent to the year-end all subscriptions receivable in connection with this underwriting were collected.

(b) Shares Reserved Under Options

At March 31, 1980, common shares were reserved for options granted to employees and two officers as follows:

Expiry Date	Number	Option Price
December 1, 1982	30,000	Escalating $6.75 to $7.25
April 19, 1983	100,000	Escalating $.45 to $.85
June 1, 1984	15,000	Escalating $9.00 to $10.00
October 1, 1984	15,000	$7.44
January 1, 1985	10,000	Escalating $7.75 to $8.75

6. Statutory Information

Remuneration paid during the year to directors and senior officers of the company, or to companies controlled by them, was $117,705 (1979 - $85,832).

design: